Recruitment and Retention Tool for Counties: Student Loan Repayment

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By Jennifer Burnett
Director of Policy, Research and Communications, Kentucky Association of Counties

Recent changes at the federal level could help make you more competitive and attractive when hiring new employees or retaining existing employees — without significantly impacting payroll costs.

In the past, public sector employers could offer non-wage benefits that could help offset less competitive wages, including generous public pension packages. For example, an employee might be willing to trade a lower wage for a public sector position today for a more secure and healthy pension in the future.

But, as these non-wage benefits have become less robust (although, unfortunately, no less expensive for counties), it has become increasingly difficult for counties to compete with the private sector for workers. Couple that long-term trend with recent increases in inflation, and counties are under intense pressure to raise wages, stressing stretched county budgets even more.

Two programs that are currently available could be strong recruitment and retention tools for counties without any impact or a reduced impact on payroll costs: public service student loan forgiveness and pre-tax employer student loan assistance programs.

Currently, about 43 million Americans have outstanding student loan debt totaling $1.6 trillion. The amount of student loan debt has exploded in recent years, and the average loan amount for federal student loan borrowers is $36,510.

For graduates who want to enter public service, the level of student loan debt they are carrying could mean they have to take a private sector job instead which offers a higher wage to afford their loan payments. These two programs could take most or all of those concerns out of the equation for a new or existing employee, making a job offer from your county much more attractive.

Public Service Student Loan Forgiveness (PSLF)

In 2007, the Public Service Student Loan Forgiveness (PSLF) program was established. The program was designed to forgive the remaining federal student loan balances of public sector and nonprofit workers after they had made payments for 10 years.

While the rules of the program are pretty straight-forward, the program has been plagued with problems — borrowers were denied forgiveness for paperwork errors or because they were in the wrong type of repayment plan, even though they met all of the other requirements. Very few applicants to the program were actually approved. For example, from Nov. 9, 2020, to April 30, 2021, 98 percent of applicants were rejected.

To resolve some of these issues and due to the COVID-19 national emergency, on Oct. 6, 2021, the U.S. Department of Education announced temporary changes to the PSLF program. The temporary changes to the program mean that thousands of borrowers could now see their loans discharged immediately or in the near future.

Under the new temporary rules, any prior period of repayment will count as a qualifying payment, regardless of loan program, repayment plan or whether the payment was made in full or on time.

These changes apply to student loan borrowers with Direct Loans, those who have already consolidated into the Direct Loan Program, and those who consolidate into the Direct Loan Program by Oct. 31, 2022.

Additionally, the amount forgiven under PSLF isn't considered income for tax purposes. The bottom line: Make sure your long-time, new or prospective employees know about this program. It could sway an employee to stay or accept a position, bridging the gap between the wage you can offer and perhaps a more competitive wage offer from the private sector.

The best news for your county: It doesn't impact your bottom line. The forgiveness comes from the federal government, so there is no cost to your county.

<u>The rules of PSLF include:</u>

- Be employed by a qualifying organization — this includes counties, along with U.S. federal, state, local, or tribal governments or not-for-profit organizations;
- Work full-time for that agency or organization;
- Have Direct Loans (or consolidate other federal student loans into a Direct Loan);
- Repay your loans under an income-driven repayment plan; and
- Make 120 qualifying payments.

<u>Qualifying payments include those made:</u>

- After Oct. 1, 2007;
- Under a qualifying repayment plan;
- For the full amount due as shown on the bill;
- No later than 15 days after the due date; and
- While the borrower is employed full-time by a qualifying employer.

Visit www.studentaid.gov for more information.

Pre-tax Employer Student Loan Assistance Programs

In addition to PSLF, your county can also implement a program to help offset the cost of student loan payments for employees. A little-known provision of the CARES Act that was signed into law in March 2020 created a new temporary tax-free benefit for employer student loan assistance programs.

The law expands the definition of educational assistance to include certain employer payments of student loans, allowing an employer to make up to $5,250 in pre-tax student loan payments for an employee each year, either paid to the employee or directly to the student loan servicer.

While employers could always offer student loan repayment as a benefit, it was counted as regular income. The new law allows these payments to be considered tax-free, which means that the employee doesn't have to pay income taxes on the benefit and an employer receives a payroll tax exclusion for the amount paid.

This allows you, as an employer, to leverage the dollars you invest in your employee and make them go further.

Originally, the CARES Act allowed this provision to be used for student loan payments made after March 27, 2020, and before Jan. 1, 2021, but the Consolidated Appropriations Act signed into law in December 2020 extended the benefit through the end of 2025.

To learn more about implementing an employer student loan assistance program, reference the educational assistance section of IRS Publication 15-B (2021) — *the Employer's Tax Guide to Fringe Benefits*.